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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 002654

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TAGS: [PREL](#) [PGOV](#) [ETRD](#) [CH](#) [TW](#)

SUBJECT: CROSS-STRAIT CONTACTS: TESTING THE WATERS

REF: A. BEIJING 9506

[1](#)B. TAIPEI 2595

[1](#)C. TAIPEI 2596

Classified By: AIT Director Douglas Paal, Reason: 1.4 (B/D)

[1](#)1. (C) Summary: Taiwan officials are cautiously optimistic over the PRC State Council Taiwan Affairs Office (TAO) response to Premier Frank Hsieh's June 13 offer to designate non-governmental bodies to start talks on cross-strait economic links. The Mainland Affairs Council (MAC) issued a statement on June 15 reaffirming Taiwan's willingness to discuss the three issues (fruit, tourism, and flights) raised by Hsieh via non-official channels, but noted that the process would need to have official sanction. MAC officials say they are waiting to see if Beijing will respond to the Premier's designation of the Taipei Airline Association as the island's representative for talks on cross-strait flights. Taiwan National Security Council (NSC) Senior Advisor for cross-strait affairs Chen Chung-hsin told AIT that both sides seem to be using the air transport issue to test each other's sincerity before contemplating broader contacts on other issues. While attempts by the KMT to restart party-to-party talks with Beijing and threats from pro-independence leaders may complicate the process, this week's public exchange appears to have ratified the first real positive momentum in cross-strait relations since February. End Summary.

Small Step Forward

[1](#)2. (C) Taiwan officials say they are cautiously optimistic that the PRC TAO's June 15 press conference (Ref A) signals a willingness on Beijing's part to consider Premier Frank Hsieh's June 13 proposal on modalities for starting cross-strait talks on economic exchanges (Ref B). While officials describe the PRC's statement over Hsieh's specific suggestions for negotiating channels as "ambiguous," they say that Beijing's willingness to avoid insistence on purely private sector talks is a step forward. NSC Senior Advisor Chen Chung-hsin noted that ambiguity is positive at this stage. "We have been stuck for too long in this cycle of the PRC saying talks have to be private and we insisting they be official," Chen noted, "both sides know that in the end we will use something in between." MAC officials tell AIT that the next step will be to see whether the PRC makes a concrete response on the Premier's designation of the Taipei Airline Association as Taiwan's authorized negotiating entity for direct cargo/passenger charter flights.

Testing the Waters

[1](#)3. (C) The NSC's Chen noted that both sides appear to remain wary of the other's real objectives, and may need a few more weeks to test each other's reactions. Chen said that PRC academic and media contacts called him immediately after the Hsieh speech to ask whether the Premier was freelancing or was truly conveying the President's position. Chen said that he answered emphatically that it was the latter, and urged his Beijing contacts to press the TAO not to reject Taipei's June 13 proposal out of hand.

[1](#)4. (C) Chen noted that while Hsieh's offer was real, Taipei remains similarly suspicious of PRC motives (Ref C). Chen said optimism over the TAO statement has been tempered by reports that the KMT and Chinese Communist Party (CCP) are preparing for a round of policy talks that will touch on such sensitive issues as military confidence building measures. Chen said it was his personal view that the PRC may try to have it both ways, reaching out to the government on technical and economic issues on the one hand while continuing to use the opposition to pressure the Democratic Progressive Party (DPP) administration to make concessions on political issues. Chen warned that this tactic could backfire by handing DPP skeptics ammunition to oppose flexibility on economic dialogue. Chen added that Taipei has tried to make it clear to Beijing through various channels that "we are willing to seek stability and expand economic contacts, but don't think you can pressure us to surrender on sovereignty issues."

Fruit and Tourism: Secondary Priorities

15. (C) NSC and MAC officials say their main focus at the moment is starting a process on cross-Strait air transport that will create momentum towards full fledged direct air links. Premier Hsieh's June 15 recommendation that the two sides discuss cargo and passenger flights at the same time is being credited by observers as a providing a face-saving way out of the months-long debate over which set of talks must come first. Chen administration officials say they are also serious about talking about opening the tourist market, but insist that this will require a step-by-step process that may start by allowing residents of major cities like Beijing and Shanghai to visit.

16. (C) Taiwan External Trade Development Council (TAITRA) Chairman Hsu Chih-jen told the AIT Director on June 14 that his organization is making preparations for technical discussions with Beijing on tourism and agriculture. The June 15 MAC statement noted that TAITRA and the PRC's "Cross-Strait Economic and Trade Association" (Haixia liangan jingmao xiehui) would make a natural channel for quasi-official negotiations on fruit and other "WTO-related" issues. Nevertheless, the Taiwan government continues to reject Beijing's stated preference for using the KMT-dominated Provincial Agricultural Association as Taiwan's representative in fruit talks. President Chen Shui-bian and other senior leaders have also made a series of high-profile appearances in recent days touting the government's success in opening "high-value" markets like Japan for Taiwan's fruit exports, contrasting these markets with the limited and "low margin" potential of the Mainland.

Comment: Regaining Momentum

17. (C) The June 13 Hsieh announcement and Beijing's June 15 response could mark a turning point in cross-Strait atmospherics, offering the first real sign of potential progress since relations soured in March over the Anti-Secession Law. Near term progress appears likely on transportation links, while agricultural and tourism industry pressure is growing on the government to seize opportunities on offer by Beijing in those areas. Nevertheless, follow-on steps could still be endangered by actions on both sides of the Strait. The KMT is clearly seeking to arrange early KMT-CCP talks in order to regain lost momentum for its post-Lien Chan visit drive to set the cross-Strait agenda. PRC agreement to play the KMT card once again could undermine the case being made by moderates within the Chen administration that the time is right to move forward. Pro-independence heavyweights tell AIT that they plan to mount a challenge to Hsieh's recent olive branch from the government's left flank. This group could potentially leverage negotiations between the DPP and Taiwan Solidarity Union (TSU) over nominations for the December local election campaign to slow the opening process. Nonetheless, President Chen and Premier Hsieh appear committed to moving ahead on technical contacts and should be able to resist domestic pressures as long as the PRC is willing to maintain the forward momentum.
PAAL